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POST-WAR DEPRESSION UNNECESSARY: PRESENT CONFLICT DIFFERS GREATLY FROM WORLD WAR I

Militarily and economically this war is unlike any previous conflict. The military changes are apparent to all. The economic changes are no less real, although they may not be as obvious. This issue of *Facts* attempts to state the economic picture clearly with reference to both the general situation and the position of the Northeast farmer.

Prices are rising. But they are not going up in the vicious spirals of the First World War. As a whole, price increases are smoothing out inequities, making our economic system work better and more justly. This is particularly true of agricultural price increases. We have machinery at hand which, if strengthened and supported by further legislation and public opinion, will do much to prevent un-unwarranted price rises and the depressions which have accompanied such rises in the past. This machinery did not exist in World War I.

All in all, the differences between the First and Second World Wars add up to one definite conclusion: We *need not* have a post-war depression. If we improve and use the machinery available, serious dislocations after the war *may be* averted or at least softened.

Reasons for this conclusion are set forth in this issue. The facts presented have been carefully gathered and simply written. I hope you will read this *Facts* thoughtfully.

A. W. Manchester

Director, Northeast Region.

SECOND WORLD WAR FINDS U. S. IN MUCH SOUNDER POSITION; PRICE ADMINISTRATION FUNCTIONS TO PREVENT INFLATION

Any analysis of the current economic picture demonstrates that there are many more differences than likenesses existing beteeen conditions in World War I and World War II. For example:

1. Our raw material resources and manufacturing facilities in many lines are much greater now than then, making unnecessary much of the frantic expansion of World War I.

2. In the first war, we had a pressing need for wheat and other grains. Today, we have ample supplies of wheat and corn held in reserve in the Ever-Normal Granary. There is no need for emergency plantings of wheat or city war gardens.

3. In the First World War, agricultural exports boomed; in this war, many foreign markets have been closed. As a result of the first war's boom, prices rose rapidly; in this war, the upward movement is much slower.

4. In World War I, little machinery existed for orderly farm production and marketing. Today, the AAA assists the farmer in adjusting his production to the curtailed demand for basic export commodities and to the increasing demand for health-foods.

5. In the 1914-18 war, Government efforts to halt the unwarranted, inflationary rise of prices were made late in the struggle. Today, the Office of Price Administration and Civilian Supply, headed by Leon Henderson, has been active in this field for several months. The Henderson office recently announced that "necessary steps" will be taken to curb speculation. As this is being done in collaboration with the SEC and Commodity Exchange Administration, unwarranted speculation in commodity futures trading should be prevented.

In the past, upward price spirals -- many of an extreme nature -- have been associated with war. Most gains from such spirals go to speculators. Extremely high prices with resultant post-war dislocations bring about depressions.

If serious economic maladjustments are to be averted or their effects minimized, the machinery available must be used and improved. The efforts of the Government to prevent inflationary price rises should have the wholehearted support of farmers. No group will suffer more from economic dislocations arising from an inflationary boom.

Since the start of the present conflict, commodity prices in general have not risen suddenly, although the rate of change has quickened of late. For the last 2 months, the Bureau of Labor Statistics index, based on the wholesale prices of nearly 900 commodities, was about 11½ percent above the level for the 8 months before the start of the war in 1939. Prices are still moderate, as shown by the fact that in May they were still about 3 percent below May 1937 price levels.

According to the May report of the Bureau, the cost of goods to the public has advanced only about 4 percent since June 1939.

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Prices have risen since the outbreak of the war, but that rise has not been sharp. Very recently some prices have moved upward at a much quicker rate. In August 1939, the month before the war, prices were at their lowest ebb since 1937 and were expected to rise to reach a more balanced relationship.

The more moderate pace of prices today as compared with their activity in World War I is seen in the fact that wholesale commodity prices rose 22 percent from the start of the war to May 1916, while from the start of the present war to last month (a roughly comparable period) prices have risen less than 12 percent.

Agricultural and industrial prices are coming into a better relationship. In the first war the rise of wholesale prices of farm products from the pre-war months to May 1916 was 9 percent. In World War II, wholesale prices of farm products advanced 19 percent from the pre-war months to May 1941. This increase in farm prices may be explained partly by the drop of such prices to the 1939 low point. They would be expected to show a larger percentage gain, therefore, than other commodities.

PRICES FOR FARM COMMODITIES STILL LAG BEHIND INDUSTRIAL PRICE LEVELS, FARMER AT DISADVANTAGE: IMPROVEMENT SEEN

For years, farm commodities have sold for prices that were far out of line with the prices the farmer was forced to pay for the manufactured goods he had to buy. Recent gains have done much to bring farm prices into balance with industrial prices, but the inequality still exists. Some of the measures discussed under the "Outlawing Bad Farm Prices" section of this issue may close the gap between the two groups of prices -- they have hardly had time to make themselves felt on May price levels.

Furthermore, farm prices are subject to more extreme ups and downs, and over the last few years farm prices have not recovered as much as industrial prices. Naturally, this places the farmer at a disadvantage.

The price the farmer gets for his products is not a reliable guide as to his standard of living. Like all wage earners, the farmer prospers only to the extent that his dollar will buy the manufactured goods he must have. For this reason, *it is vital to the well-being of agriculture and the nation* -- since farmers are an important part of the consuming public -- that farm and industrial prices attain a balance and stand in reasonable relationship to each other.

If the farmer is to avoid "hard times," it is essential that the prices he gets for his products move up when industrial prices move up. Furthermore, once the balance has been reached, the rise should be about equal in each case.

The following table shows industrial and agricultural price relationships in recent years:

Wholesale Price Indexes

	Farm Products	Manufactured Products
	(1926-1929 Average = 100)	
1926-29 Av.	100	100
1932 Av.	47	73
1934-37 Av.	76	85
1938-40		
Low Point Aug. 1939	60	82
May 1941	75	90

Prices of farm products had fallen 53 percent in 1932 from the 1926-29 average, while manufactured prices had declined only 27 percent. In the recovery period of 1934-37, farm product prices, although averaging 62 percent above the 1932 level, were still 24 percent below the 1926-29 period; prices of manufactured products were only 15 percent below the earlier period.

During the 1938 industrial recession, prices declined until August 1939. The decline from the 1934-37 average was 21 percent for farm products and only 4 percent for manufactured products.

Since August 1939, which was the low point since 1937 as well as the month before the war started, both groups of prices have reached new highs, although they have not recovered proportionately. In May 1941 farm product prices were still 25 percent below the 1926-29 level, while manufactured prices were only 10 percent below that level. In addition, prices for farm products were still below the 1934-37 range, while those for manufactured products were 6 percent above that level.

OUTLAWING BAD FARM PRICES TO PREVENT UNFAIR LEVELS AND TO ELIMINATE GREATEST FARM RISK -- RUINOUS PRICES

During the past 3 months, a substantial part of United States farming has been given a practical guarantee that a floor will be placed under prices to prevent them from dropping to unfair levels. The actions taken make up the most important definite steps in eliminating low prices in American agricultural history.

Pork, eggs, poultry, dry white beans, wheat, corn, cotton, rice, tobacco, and peanuts are now specifically covered in assurances of protection against prices below stated points. In many cases, outstandingly for corn and beans, promises of price protection are limited to cooperators in the agricultural conservation program. For wheat, corn, cotton, rice, peanuts, and tobacco price support at the higher levels is conditional upon farmers' voting to apply marketing quotas in case supplies are very large. These quotas have already been voted for cotton, wheat, peanuts, and certain types of tobacco.

Legislation extending similar privileges to other commodities has been much discussed. Northeastern potato growers have been aggressively studying (in cooperation with growers from other regions) the possibility of legal authorization for similar price support for potatoes.

For the so-called "basic" commodities, the price assurance is limited to the 1941 crop by amendment to the farm act, directing the Commodity Credit Corporation to make loans upon the 1941 crop of cotton, corn, wheat, rice, or tobacco at 85 percent of parity.

Since these are nonrecourse loans and the borrower can, at his option, turn the commodity over to the Government to satisfy his obligation, they pretty effectually set 85 percent of parity as a bottom for prices. This means $1.10 a bushel or better, less discounts for inferior quality, for wheat in most of the Northeast wheat-raising area. While corn loan rates have not been officially

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announced, 85 percent of parity on corn would probably be about 80 to 85 cents per bushel in the commercial corn area in southeastern Pennsylvania.

With loans available at 85 percent of parity, and the possibility of market prices ranging above that figure, and with parity and conservation payments to supplement the income from sales, it is expected that cooperators will receive approximately parity prices in total returns.

The assurance of price support was given by Secretary Wickard on April 3 at levels approximately as follows: Hogs, cwt. $9; dairy products (basis of butter) lb., 31 cents; chicken, lb. 15 cents; eggs, doz. 22 cents.

Subsequent developments have made plain that (1) These prices are a floor, not a top. Some of these commodities have gone decidedly higher recently; (2) prices may fall below these levels for short periods, but if, after allowing for normal seasonal variations, they stay down, the Department enters as a buyer; (3) this price support is on a Chicago basis, but prices in the East tend to stay about the usual amounts above Chicago. The Easterner gains just as does the Westerner.

One other price more of interest to Northeastern farmers has been made; the one for tomatoes for canning. An announcement was made on April 17 that an increase in canned tomatoes was desired and that the Federal Surplus Commodities Corporation would ask bids by canners to deliver substantial amounts from the coming crop. In considering bids, the FSCC will make allowance for increases of from $2.75 to $3 per ton over 1940 contract prices to growers. Reports to date are that tomato processors have not all made the full upward revision of prices indicated in the release. No announcement has yet been made of further action.

As to official policies on farm prices, Leon Henderson, price administrator, said on April 30:

> *"I will continue to support administration policies which are directed toward the improvement of farm income...the Government...is underwriting the risk of the expansion of output. Should there be a speculative advance which unreasonably anticipates heavy domestic or British buying, then action will be taken. We will take it with the speculator rather than the farmer in mind. Unjustifiable price increases and profiteering must be checked wherever they occur. But I will recognize what the Congress and the present administration have written into law -- namely that the prices of many farm products in past years have been too low."*

There are of course a large number of measures in effect which tend to support prices, such as crop adjustment, surplus removal, market expansion, market agreements, etc. These all play important parts in the total farm program. The new measures listed here are distinctive in that they set a definite bottom for prices - a bottom above disastrous levels. They remove for these commodities, so long as they remain in effect, the greatest risk in farming -- the risk of ruinous prices. That is a long step on the road to security. Agriculture's problem now is to spread similar protection to the commodities not now covered and to put the policy of a floor for farm prices at fair levels on an enduring basis.

NORTHEAST GETS LARGEST REGIONAL SHARE OF DEFENSE MONEY; RESULT IS IMMEDIATE URBAN-RURAL GAIN, NEED FOR FUTURE READJUSTMENT

Recipient of nearly 40 percent of the amount of defense contracts and expenditures from July 1, 1940, to May 31, 1941, the Northeast Region stands out as carrying a very heavy part of the burden of defense.

As it affects the farms of the Northeast, this means:

1. That more people in the cities of the Northeast will have more money to spend, since a considerable proportion of the defense expenditure will be turned into wages. More than 33 of the 35 million persons in the Northeast are urban residents.

2. That an increased proportion of the average wage check will be spent for more and better foods. This means that farmers in the Northeast Region may reasonably expect favorable prices for their produce.

3. That this general prosperity of the region will increase as industry in general gathers more momentum in response to the greater needs of more workers in industry who have more money to spend.

4. That farmers have a harder time getting farm help than those elsewhere.

5. That, if there were an after-war slump, the Northeast would bear the heaviest burden.

Defense Contracts and Expenditures for the Period July 1, 1940–May 31, 1941

State	*Amount*	*Percent of U. S. total*	*Amount per person in State*
Maine	$217,284,000	$1.39	$256
New Hampshire	104,855,000	.67	213
Vermont	3,229,000	.02	9
Massachusetts	886,806,000	5.69	205
Rhode Island	63,000,000	.40	88
Connecticut	596,006,000	3.82	349
New York	1,631,356,000	10.46	121
New Jersey	1,445,123,000	9.27	347
Pennsylvania	1,320,750,000	8.47	133
Northeast	6,268,409,000	40.19	174
United States	15,597,421,000	100.00	118

INDUSTRIAL PROFITS SHOW BIG INCREASES: 345 COMPANIES SHOW NET PROFIT INCREASE OF 17.5 PERCENT

Industrial prices are up.

For 345 companies, the net profits for the first quarter of 1941 were 17.5 percent greater than in 1940. After allowances for depreciation, interest, taxes, and other chargss and reserves, the annual rate of return on net worth was 12.2 percent for the 345 companies.

These figures, compiled by the National City Bank of New York City, show that the increased profits are being made by many industrial groups despite increases in the cost of materials, wage rates, and income taxes. The steel and iron group showed the largest gain -- more than double the net profits for the first quarter of 1940.

Price increases are to be expected in some instances, and in order to step up the production of essential defense materials certain price advances may be justified. But for many industries price increases are not warranted.

Mention has already been made of current Government efforts to halt unfair price rises as one of the means by which inflationary trends toward a post-war depression may be stopped. An example of this is the recent action of the Leon Henderson Office in pointing to the recent high earnings of automobile companies and asking for a cancellation of auto price advances contemplated by the companies. Another illustration: It was generally agreed recently between the OPACS and refiners that substantial increases in gasoline prices are unwarranted unless basic conditions change.

These are instances of the type of price administration lacking until late in the last war and one reason for believing that a post-war depression may be avoided.

SLIGHT SHIFTS REVEALED IN PRICES OF FARM COMMODITIES FROM 1939 TO 1940; BACKGROUND PRICE INFORMATION

The following table lists prices of typical Northeast farm commodities in 1939 and 1940.

As the table shows, 1940 prices for most commodities were not greatly different from those prevailing in 1939. Potato prices are the outstanding exception. In 1940 they were about 40 percent lower in the Northeast and 24 percent lower in the Nation. The wholesale price of milk was 8 or 9 percent higher in 1940 in both the Northeast and the United States. The yearly average price for milk in the Northeast in 1940 was the highest for the past 10 years.

Commodity and Unit	Northeast Region			United States	
	1939	1940		1939	1940
		(Season average price)			
Wheat per bu. (ct.)	82.0	80.3		68.6	66.0
Corn per bu. (ct.)	69.3	72.0		53.8	56.3
Potatoes per bu. (ct.)	82.5	49.8		68.9	52.4
Apples per bu. (ct.)	65.0	87.6		63.8	81.2
Tobacco					
Types 51-52 per lb. (ct.)	23.0	21.5	*All Binder*	16.7	14.8
Type 41 per lb. (ct.)	12.9	13.3	*All Filler*	11.7	12.0
		(Yearly average price)			
Chickens per head (ct.)	70.8	70.3		52.2	53.4
Eggs - per doz. (ct.)	24.2	24.7		17.4	17.9
Milk - per 100 lbs. (dol.)	1.96	2.13		1.68	1.82